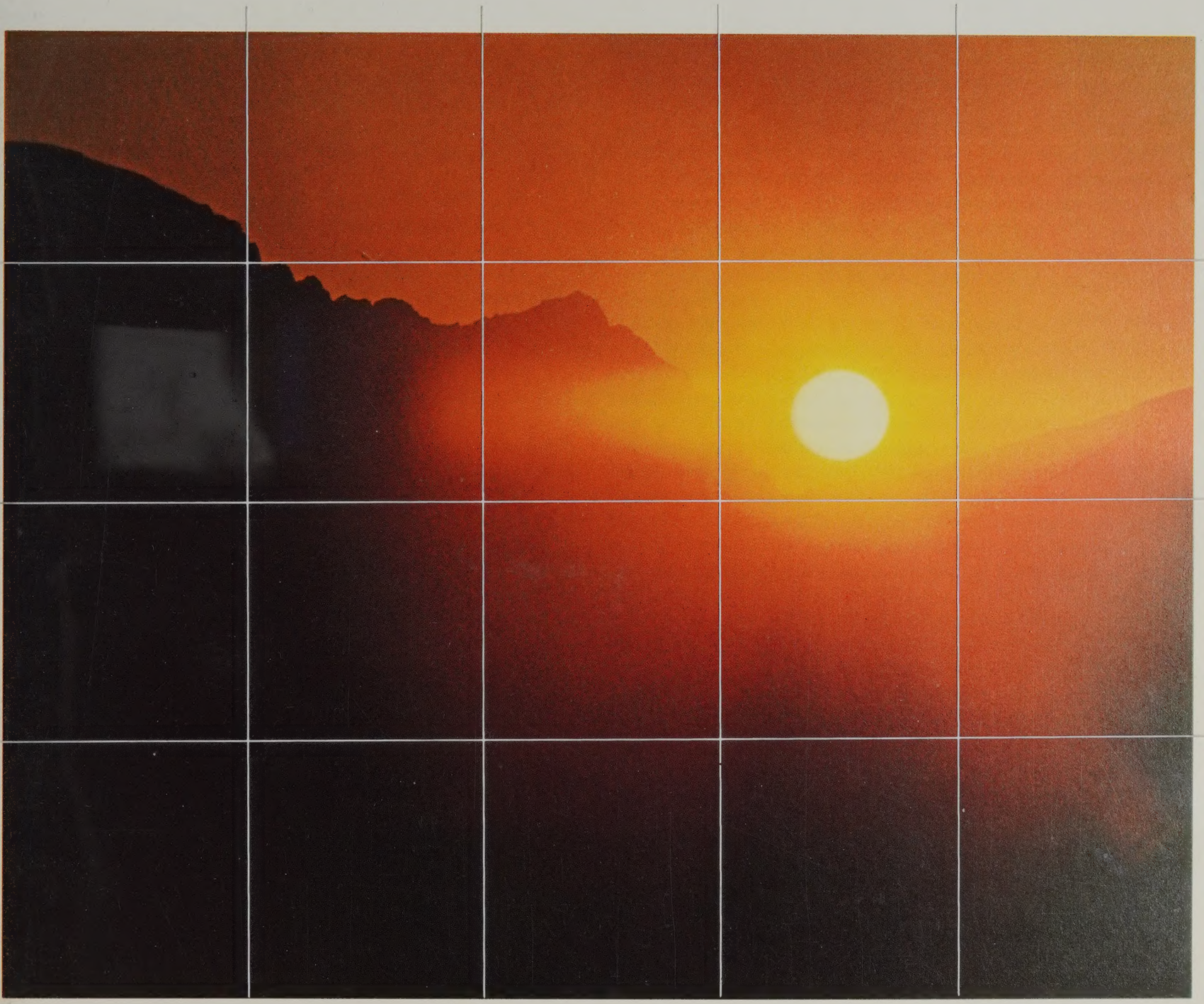
Wallace-Murray Corporation

Annual Report 1969



Financial Highlights

	1969	196
Net Sales	$238,146,960	$218,288,55
Net Income	11,770,349	11,178,83
Average Number of Common Shares Outstanding	2,813,229	2,783,15
Earnings Per Common Share—Assuming no Dilution	$3.53	$3.3
Average Number of Shares Outstanding, Assuming Full Dilution	4,313,047	4,313,64
Fully Diluted Earnings Per Share	$2.65	$2.5
Cash Flow	18,446,100	17,529,51
Depreciation	6,675,751	6,350,68
Capital Expenditures	11,164,099	8,811,56
Working Capital	59,429,867	55,692,44
Long-Term Debt	54,318,073	54,660,46
Stockholders' Equity	80,892,180	73,522,28

*Restated to reflect companies acquired in poolings of interests transactions.

Fully diluted earnings per share assumes full conversion of $1.70 Cumulative Convertible Preference Stock and exercise of Common Stock warrants.

o the Shareholders

o business can exist in a vacuum. Not for long.

Its rate of progress can be measured, as it is on the facing age, against its own performance and across time units. hese measurements say something about its internal sound- ess and its ability to carry out planned programs.

But its long-term success, the solidity of its premise, epends on how well it is tuned to the external dynamics of e society in which it functions. Measurement in this context oes not exist yet. If it did, it might be called the index of levance, and it would denote the degree to which a busi- ess has deployed the resources at its command against ndamental needs that are real, substantial, and susceptible solution.

Wallace-Murray has selected as the spheres of its present ctivity three such areas of need. Statistically, they are real nd substantial. Given the nature and purpose of our society, ey *will* be solved.

Housing, the first of these areas, has been described as the nly market in which demand will surely exceed supply in the ears ahead. By one estimate, we will need to put up more ousing units in the next 30 years than we have in the past 300, uilding the equivalent of a new city of 250,000 inhabitants very 40 days. By another, we will require 27 million new units 1978. Meanwhile, we are actually losing ground at the rate one million units a year. If the need that exists is to be even rtially satisfied, housing will have to become the leading owth industry in the United States.

Nearly every economic factor now seems to militate against solution to the housing crisis—rising labor, material and nd costs, insufficiency of credit, outdated practices and gulations. These and other chronic problems will linger until e United States decides to give housing a high national iority. But that decision will be made—because as a nation e simply will not indefinitely tolerate the fact that tens of llions of people are ill-housed, or not housed at all. This may acceptable in some societies. It is not in ours. (In this nnection, it may be relevant to point out that the present ortage affects all kinds of housing, not just the low-income gment; the greatest opportunity, in fact, is currently in the ddle-income range.)

Whatever else is done, part of the solution will come through the industrialization of housing. For instance, the aggregate of facilities required to heat, cool and ventilate a house, to utilize water, and to dispose of waste, now accounts for one quarter of the cost of the house, and requires complicated, time-consuming installation. It is possible to design all these facilities as an engineered, integrated input-output system. Wallace-Murray has participated in doing just that, in a proposal submitted to the Department of Housing and Urban Development's Operation Breakthrough, and is now working with other manufacturers on other systems plans embodying the same concept.

Certainly there is no secret to the housing shortage. Many companies are recognizing the opportunities which it offers and are entering the field. But successful participation will require long experience and developed capability in the field. Wallace-Murray is drawing on 65 years of experience in the fundamental technology of building—mechanical and ceramics engineering, and metallurgical research into the casting, stamping, heat-treating, coating and finishing of materials. To marshal these technical capabilities and others available throughout the company, a centralized research and development unit was established at the corporate level this year.

There is a semantic point which bears making: "housing starts" is a precise and useful statistical term, but it has connotations of uniformity, coldness, impersonality. People do not live in housing starts, they live in homes. As consumers —and this is true even for institutions such as schools and hospitals—they want attractiveness, style and the expression of individuality, in addition to four walls and a roof. Wallace-Murray possesses the marketing skill to anticipate these preferences, and the distribution facilities to make them available. A house is a home; even the plans we have proposed for integrated systems have been drawn to allow flexibility for architectural latitude.

Another part of the solution will come with the growing popularity of mobile homes—400,000 were built in 1969, and 550,000, or nearly 35% more, are forecast for 1975. The mobile home is far from being a house on wheels. While many are

the Cover:
e light of a new decade
phasizes the unsolved prob-
ns and unsatisfied needs
ch test the creative force of
siness and society alike.
at Wallace-Murray is doing
meet the challenge posed
some of these problems is
subject of this report.

now in the low-cost range—three out of four new homes under $15,000 built last year were actually mobile homes—the trend is toward larger size and more bountiful amenities. Equally significant, mobile homes represent a separate market with separate characteristics and requirements. In recognition of this, Wallace-Murray this year acquired the Lawton Company of St. Petersburg, Florida, a leading supplier of material directed specifically to builders of mobile homes.

The second major area of Wallace-Murray's business centers around a group of problems which, while substantial and basic to our national economic structure, appear dissimilar. They include the demand for higher-performance, low-emission engines, for better methods of handling materials, for more effective means of transferring energy. From a business standpoint however these problems are related. Fundamentally, they all have to do with finding more efficient ways to move something from one place to another.

Wallace-Murray is the world's leading producer of turbochargers. A primary application of a Schwitzer turbocharger is to boost the power of an internal combustion engine by the forced movement of air. It does this very efficiently. But, as a logical next step, the turbocharger can be adapted so the movement of air itself becomes the motive force—as for instance in the unique *Turboconveyor*® brand of unloading equipment. Coupled with air pumps, in which Schwitzer is also a leader, it becomes part of a materials-handling, loading-unloading system; or, in another application, the core of an air pollution abatement system. With the addition of fan drive systems, in which Wallace-Murray also has competence, it becomes possible to solve problems in heating, cooling and process control.

From air movement, it is a short step to the management of fluid systems. Wallace-Murray took that step this year by acquiring Fayette Tubular Products, Inc., one of the largest independent manufacturers of fluid-carrying devices and components. In addition to its existing product lines, Fayette brings to Wallace-Murray new capability in a wide range of air-conditioning applications.

Power-motion requirements are constantly becoming more demanding, on trucks and passenger cars and within static systems such as manufacturing processes and houses. As they do, the need for efficiency will grow, and with it Wallace-Murray's range of opportunities.

The third part of Wallace-Murray's business lies in the area which separates the creative imagination of engineers and designers from the consumer's insistence on better products. Wallace-Murray's contribution to the bridging of this gap is usually unseen in the final product. It is necessary to dismantle a telephone to find two tiny high-permeability nickel-iron alloy magnetic pole pieces in the receiver made by Wallace-Murray which provides it with an audible voice. The Simonds cutting tools which may have been used to chi the log, coat and cut the paper, trim the pages and help to bind the cover leave no visible trace on the report you are now reading.

There is hardly a product or material which, on its way from blue-print to finished form, does not undergo some form of cutting. Indeed, the ability to cut new materials, or fabricate existing ones to new forms is generic to the development of most new products. Wallace-Murray is the world's largest, most diversified, and most experienced manufacturer of industrial cutting tools.

Wallace-Murray also develops, produces and markets—by the pound, not the ton—specialty metal alloys for the aircraft, aerospace, automotive, electronics, metallurgical and other industries which require extremely high degrees of heat and corrosion resistance, hardness, controlled expansion and magnetic properties. Wallace-Murray fabricates a portion of its own metals into a variety of high performance, precision mechanical components.

The concern with translating the desirable into the practical, with turning unsatisfied needs into business opportunities can stand as a statement of Wallace-Murray's business philosophy. Putting it into action has kept us busy, and profitable during 1969. We are confident it will continue to do both in the years ahead.

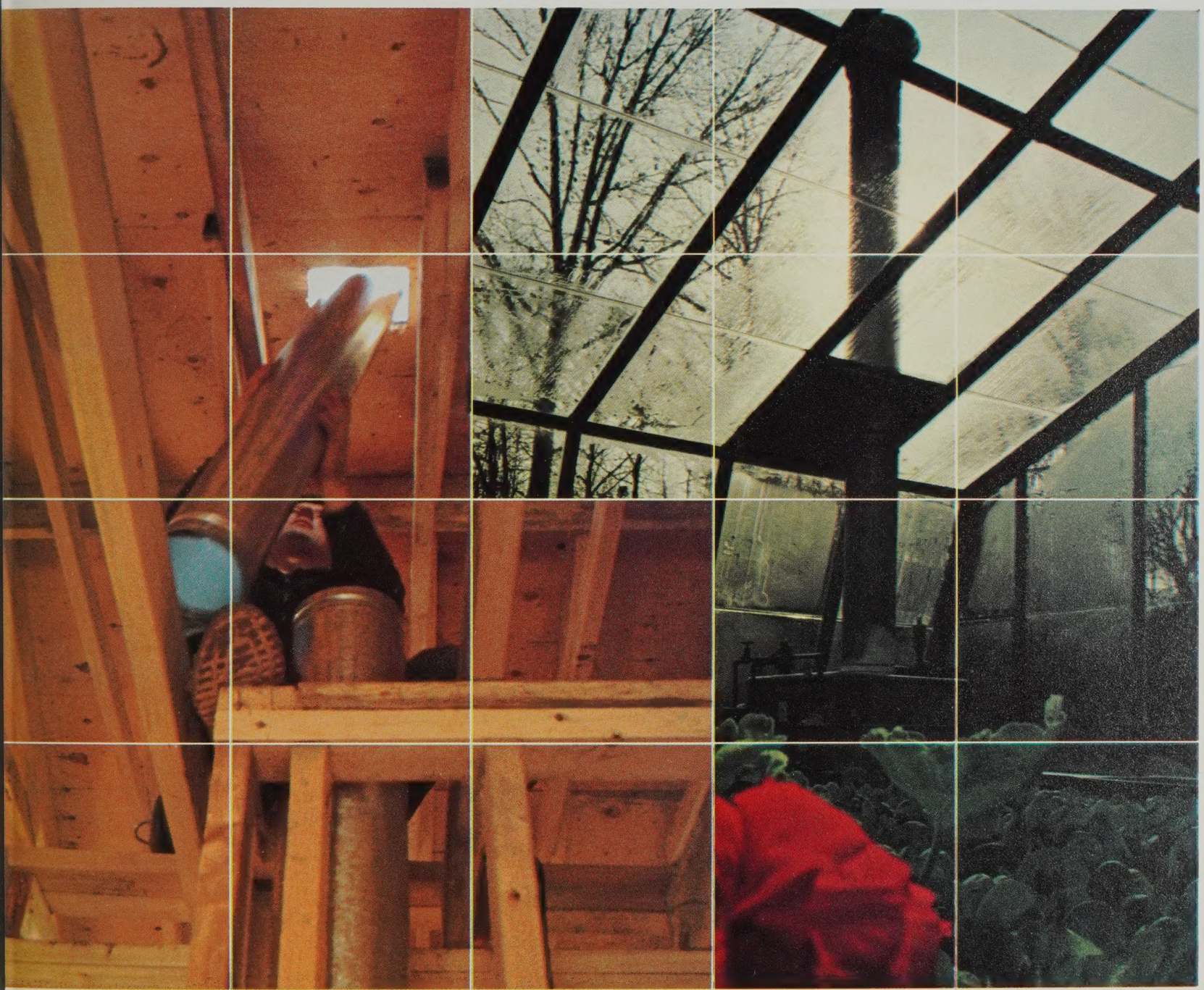
The 20-page section which follows has two purposes: to review the progress of Wallace-Murray's activities in the past year, and to present some of its principal products, as they play their part in your life.

It takes a lot of building to make a house,

and that is one of our big problems. How to simplify the process without cutting back on the product? How to give more for less? The three men below are working on exactly that problem, questioning constructively how things have been done in the past. Their objectives: efficiency, flexibility, economy. Their solution: a single mechanical core unit to control air and water distribution inside your home, specifically designed for simple and rapid—a synonym for low-cost—installation. It foresees the use of new products: a fiberglass bath and shower enclosure with its own integral walls.

All heating, air-conditioning, bathroom, laundry, plumbing, kitchen, drain and vent systems are integrated in this plan, one of several now undergoing evaluation in cooperation with the Federal Government's Operation Breakthrough program.

A good idea? Wallace-Murray has started marketing it. The man in he photograph at center is working too. He is installing in a residential dwelling a Metalbestos gas vent made by our William Wallace Division. It will take him one hour to do it—one sixteenth the time needed o put up a brick chimney. And because it is free-standing, he can place it anywhere you wish. Many Metalbestos gas vents are used industrially in manufacturing plants and warehouses, and in apartments, airports and even greenhouses. Dependable, efficient, controlled heat is essential here, and so is cleanliness, just as in .....



Metalbestos Type B gas vents, like William Wallace's new stainless steel chimney which has a one-inch insulated double wall equivalent to 17 inches of masonry, can be installed quickly, saving time and money.

your own house. Although the fireplace is now seldom used as the main heating unit of a house, it continues uniquely to satisfy a need so basic that it reaches back to man's origins. As the world's largest maker of gas vent systems and stainless-steel chimneys, Wallace-Murray thus enjoys an unusual marketing position—a position now improved with the successful introduction of products that are more economical, more efficient, and satisfy that need with greater flexibility. Technology means many things; surely one of them is the development of a simple, good idea that works. The photo-

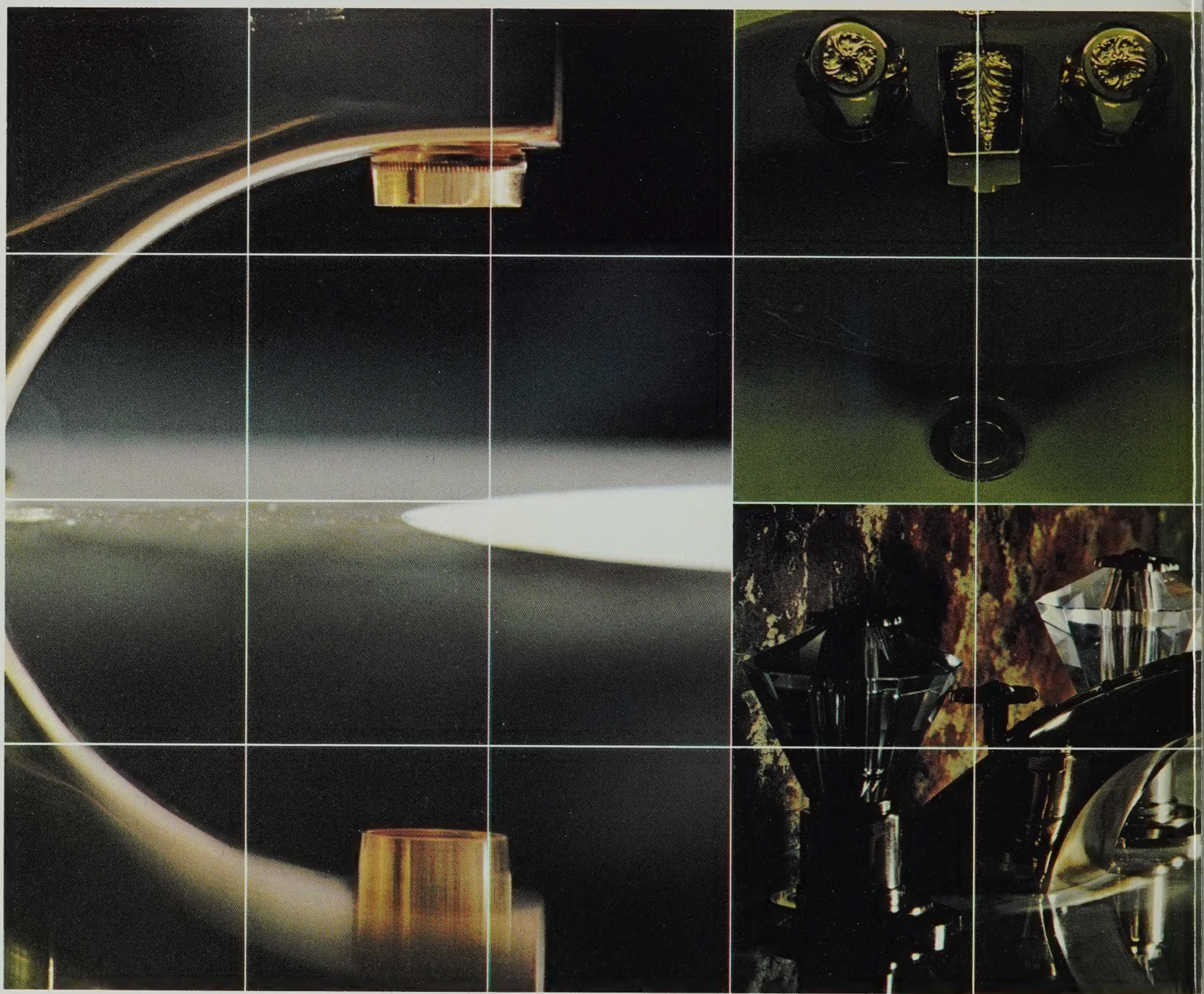
With the exception of the decorative brick fireplace itself, this entire chimney system is free-standing. The stainless steel chimney vents the fireplace while the metal pipe (left) carries gases from the basement heating system.

graph at center is evidence of another such idea. For years, faucets came in pairs—too hot and too cold. Then one vanished. The next logical step, now taken by Wallace-Murray, was a simple, reliable way to pre-select, automatically and precisely, water temperature. This is just what the Temperfix® thermostatically controlled mixing valve does. It is now available exclusively in the United States from Eljer. Again, a small bit of technology, but a great convenience in taking a shower—and therefore an effective marketing edge. Efficiency appeals to American .....

Temperature-holding action is controlled by a spindle acting in a cartridge of liquefied gas. Design permits virtually maintenance-free operation over many years of service.

Attention to seemingly small functional details such as an adjustable spray shower head contributes to the acceptance of Eljer products by architects and builders.

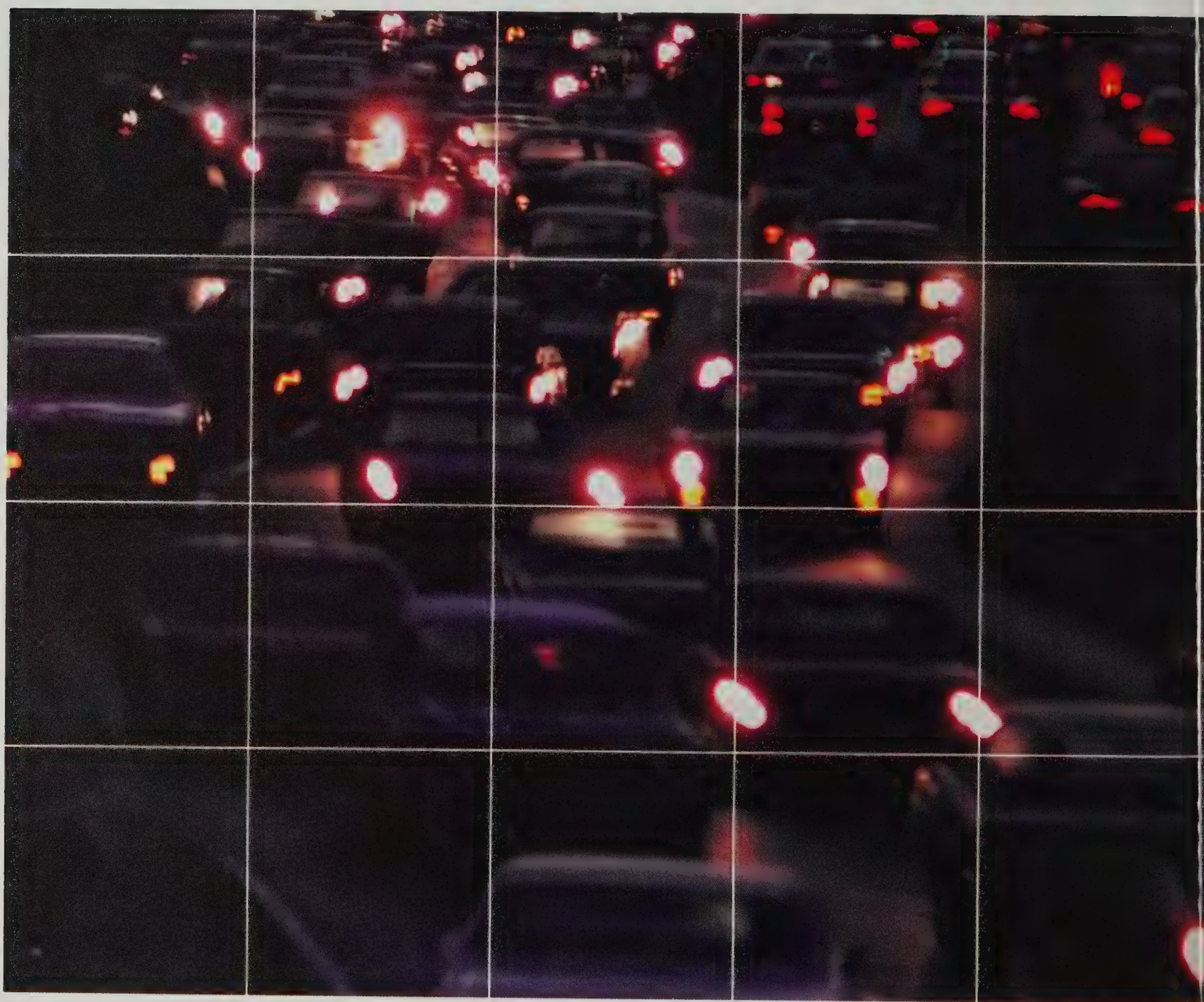
consumers, but they also want style and the opportunity to express individual taste. Eljer's ability to anticipate that choice continues to require expansion of its plant facilities. Three major programs were begun in 1969, one of them exclusively for the manufacture of reinforced fiberglass fixtures. This is a major innovation that has loomed around the corner for some time because it met, on paper, customer criteria: economy of installation, easy maintenance, handsome appearance and wide design latitude. In practice, lack of technology impeded consistency in meeting



quality standards. By solving this problem, Wallace-Murray is now in good position to move into a promising new business, which accounts for only three per cent of the total market. An analogous instance of technology catching up with a good idea is the emergence of mobile and modular homes as a separate, significant segment of the housing industry. Many of Wallace-Murray's building products, and the design and engineering resources behind them, are particularly suited to serve this segment, for which near-term growth projections far exceed those of conventional housing.

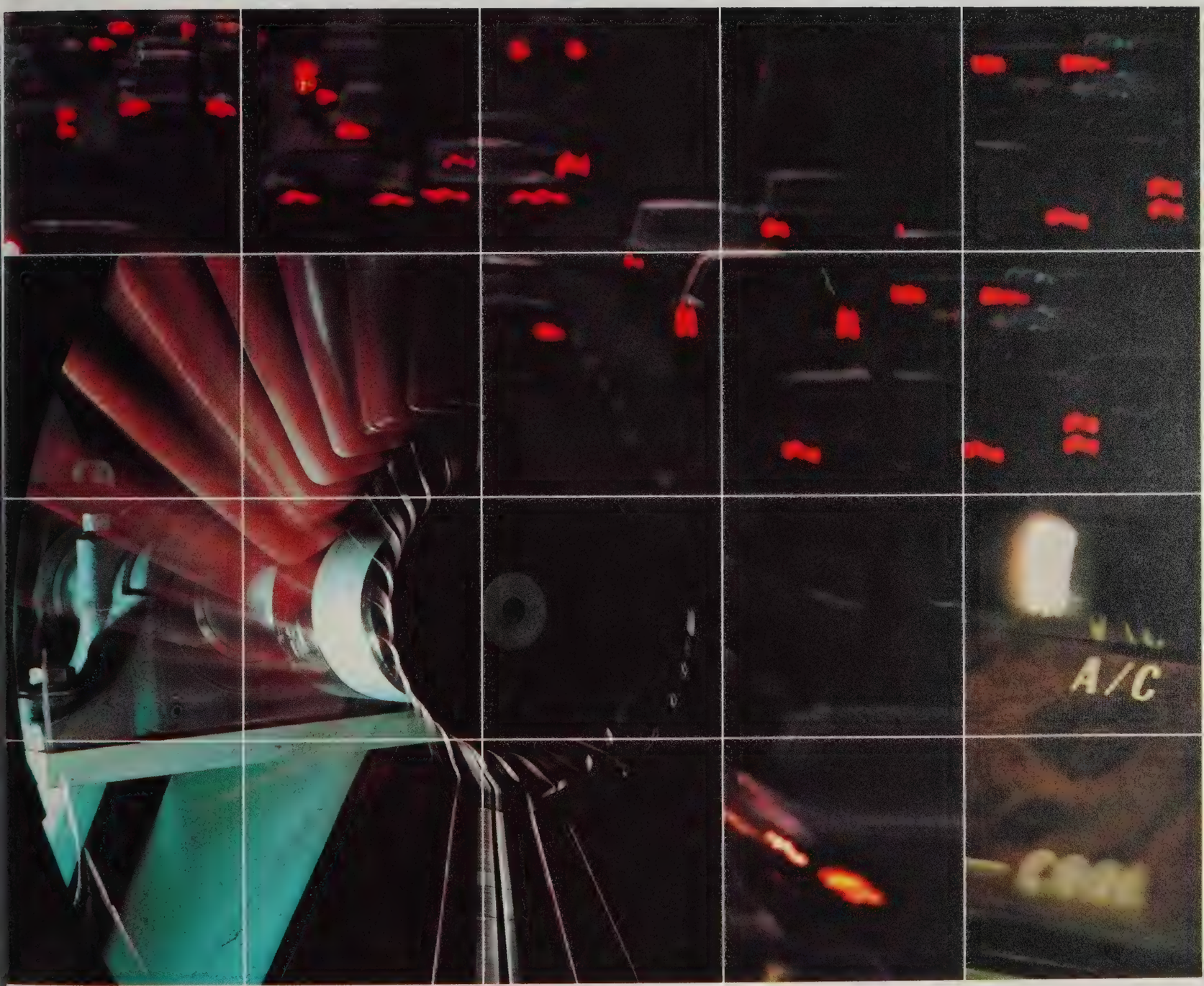
Eljer glass and brass fittings, some in production and some still prototypes span a range of design from traditional to contemporary, all meeting exacting performance criteria.

The same efficiency which has been assigned a key role in the ultimate solution of the housing problem is also essential to the great complex of industries that have made us history's first nation on wheels. The Schwitzer Division of Wallace-Murray has grown up with the internal combustion engine. Today it is the nation's largest producer of turbochargers, and one of the most successful innovators in the field. It has also pioneered in other components that have the prime purpose of improving an engine's performance, often in ways invisible to the unaided eye.



Rush-hour scene on big city expressway suggests both the reliance placed on the automobile, and the scope of opportunities it presents for more efficient, new products.

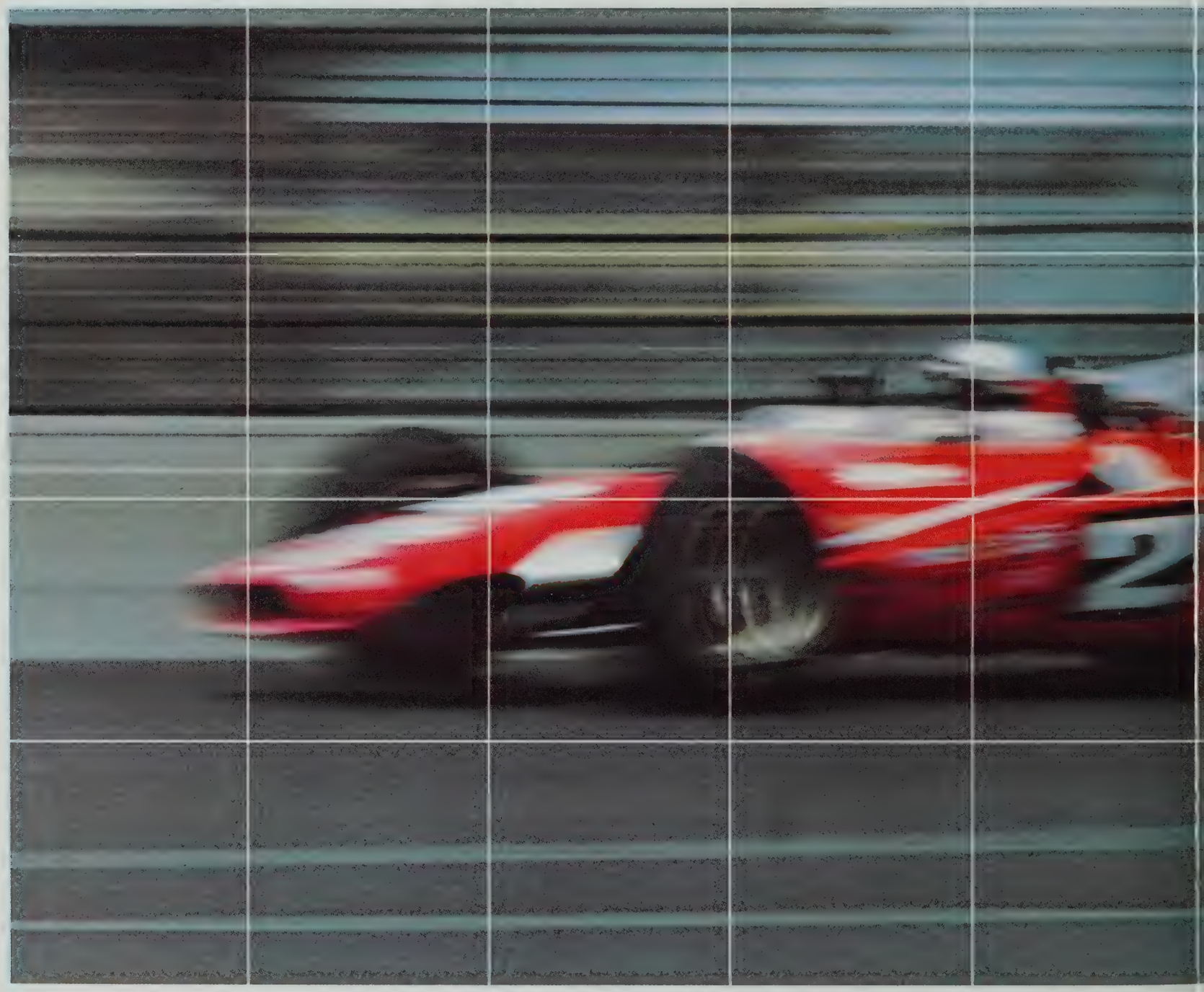
The photograph below, for instance, shows the action of a flexible Schwitzer fan blade: as the engine's speed increases, the blade's pitch decreases, thus taking less power from the engine. At idling speed, the pitch increases to push an adequate volume of air across the engine. Other Schwitzer products like air pumps and air motors are being used for air pollution control, a field which is currently claiming national attention. It is not new to Wallace-Murray because the turbocharger itself is a pollution-control device, in addition to being an example of .....



Blade configuration as well as new plastic materials are evaluated on this test stand shown here in time exposure which simulates conditions to be encountered in actual operation.

Behind easy-to-flip dashboard air-conditioning control is an intricate but reliable hose assembly which is produced by Fayette, newest operating unit in Wallace-Murray's power components group.

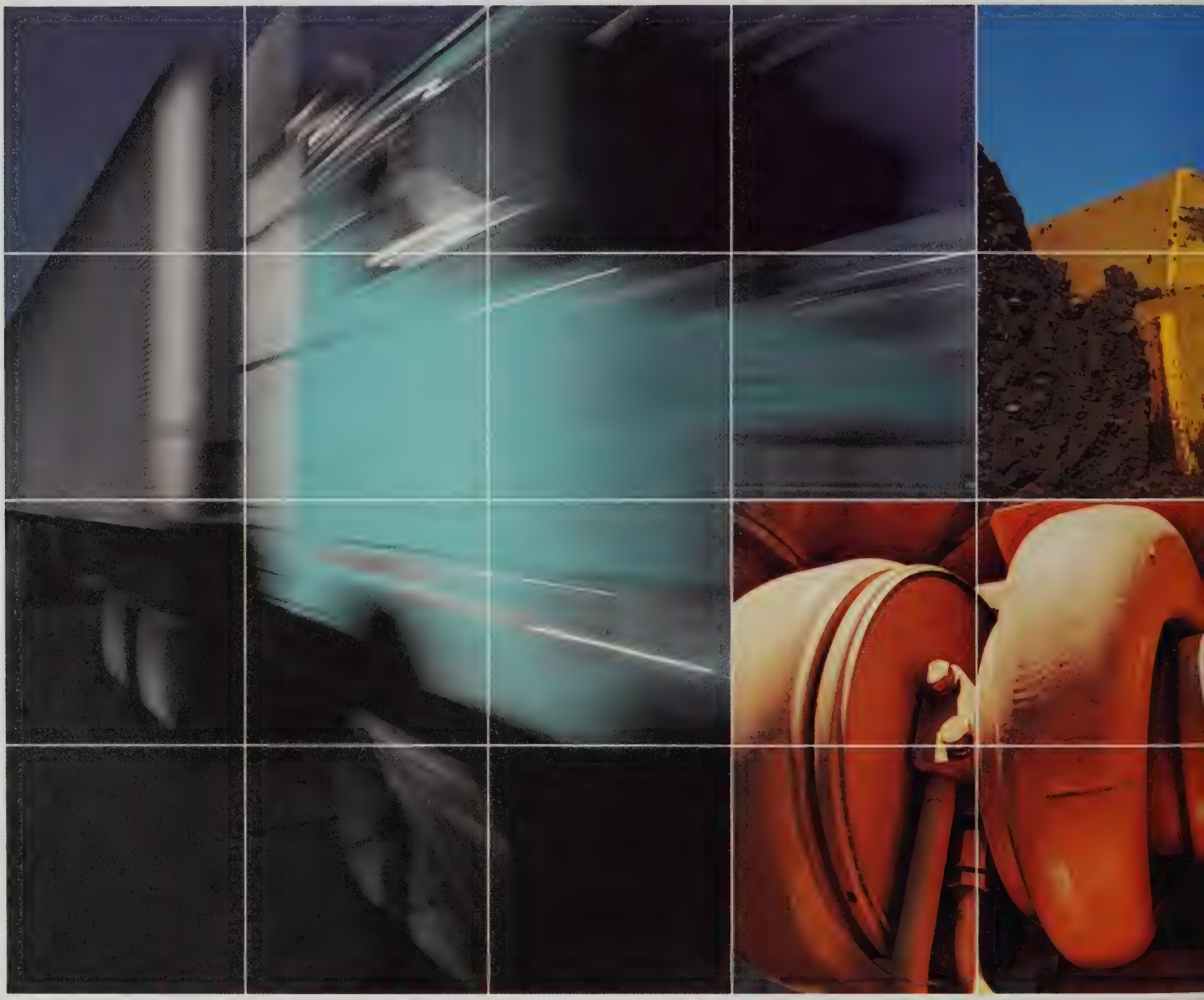
efficiency in action. Exhaust gas from the engine, which normally would be emitted, is used instead to drive a turbine wheel which in turn impels a compressor to force-feed fresh air into the engine. The whole mechanism, containing parts that must turn at speeds exceeding 100,000 r.p.m. in atmospheres of extreme heat and corrosion, is contained in a unit that is substantially smaller than a football and weighs only 25 pounds. A modified version, mounted on a Ford engine, increased horsepower by over 40 per cent and helped win six USAC Championship races, including the Indianapolis "500." It



A Schwitzer turbocharger, visible between the rear wheels, helped develop the 700 horsepower which powered the winne to victory in the 1969 running of the Indianapolis "500."

as been pointed out that racing serves as the critical proving ground or automotive innovations that then become standard equipment on passenger cars—such as torsion bar suspension, synchromesh gears, high performance tires. The Schwitzer turbocharger s now being evaluated in the normal operation of conventional automobiles and farm tractors. Meanwhile, a new miniturbo is already inding use on smaller 1 and 2 cylinder engines such as farm generators and home tractors. Conventional-sized turbochargers are already in use on more than one-third of all the .....

Diesel engines now in use. It is expected that this proportion will rise to 70 per cent within the next three years, and Wallace-Murray has begun expanding capacity to meet this new demand. The capability of the turbocharger has also been applied in another way: to unload bulk products ranging from grain to chemicals. The Schwitzer 3TC *Turboconveyor* is a self-contained system, mounted directly on the vehicle, which uses engine exhaust to drive a turbine and force compressed air into the tank containing the material, wet or dry, to be unloaded. The entire system weighs only



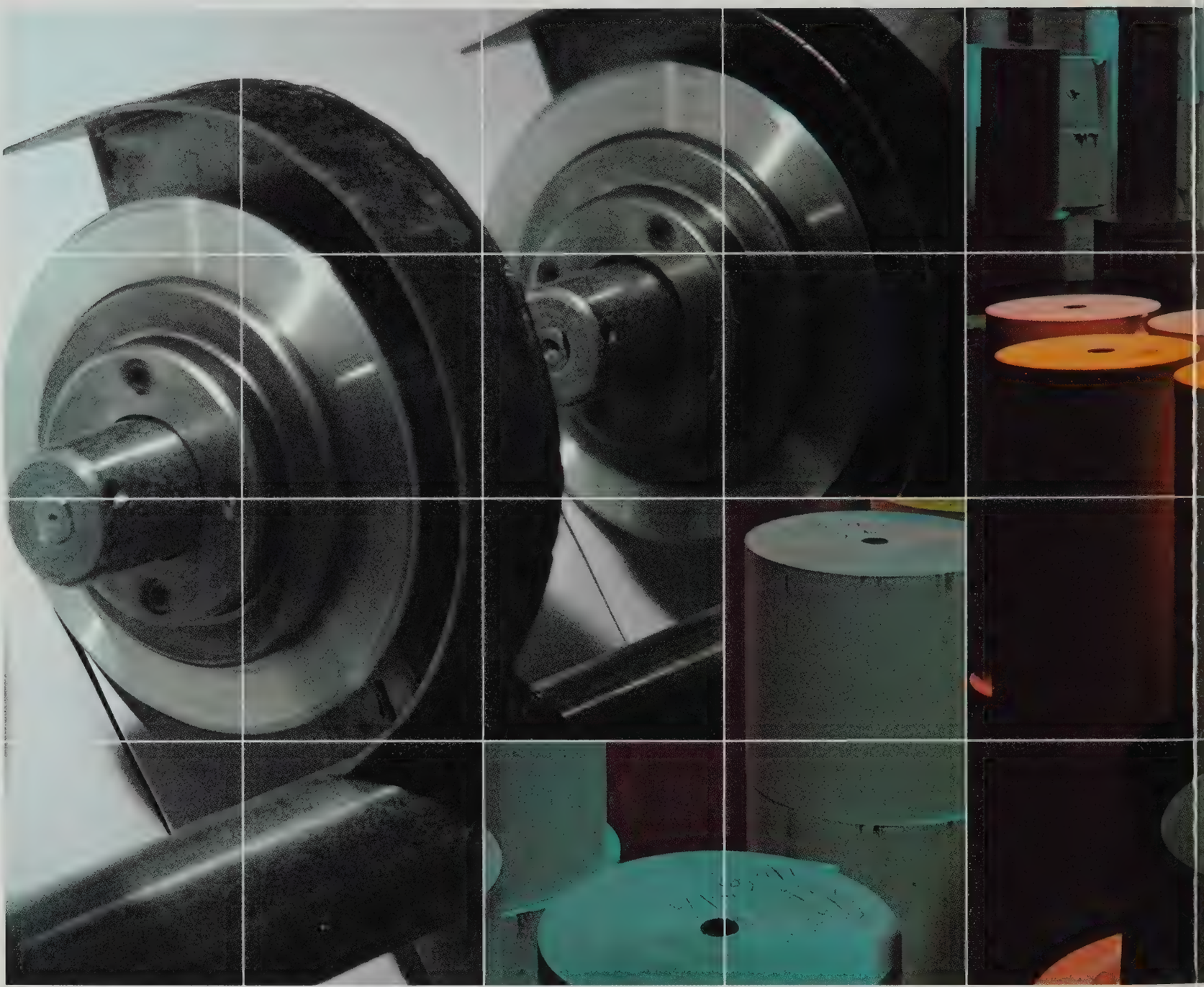
On heavy-duty highway rigs, turbochargers deliver 30% power boosts. Similar, smaller models are being used to improve performance of low- 10 to 12-hp. engines by similar amounts.

Compact, self-contained and essentially simple in design, Schwitzer turbo used on the giant earth mover (right) measures 10 inches in diamete weighs only 45 pounds, needs little maintenance.

98 pounds, allowing up to 1,000 pounds of additional payload over competing equipment. It is also easier to use and, because of its simple design, requires less maintenance. Still one more good idea that works. Wallace-Murray's total competence as an integrated factor in engine components was extended in 1969 to the broad field of fluid-based systems. Within the automotive industry alone, current application for such systems include steering and braking power assemblies, and air conditioning—which will be standard on some 75 per cent of 1972 models.

In addition to the primary job of increasing power developed by the engine, turbochargers also permit more efficient utilization of fuel, and therefore suppression of smoke emission.

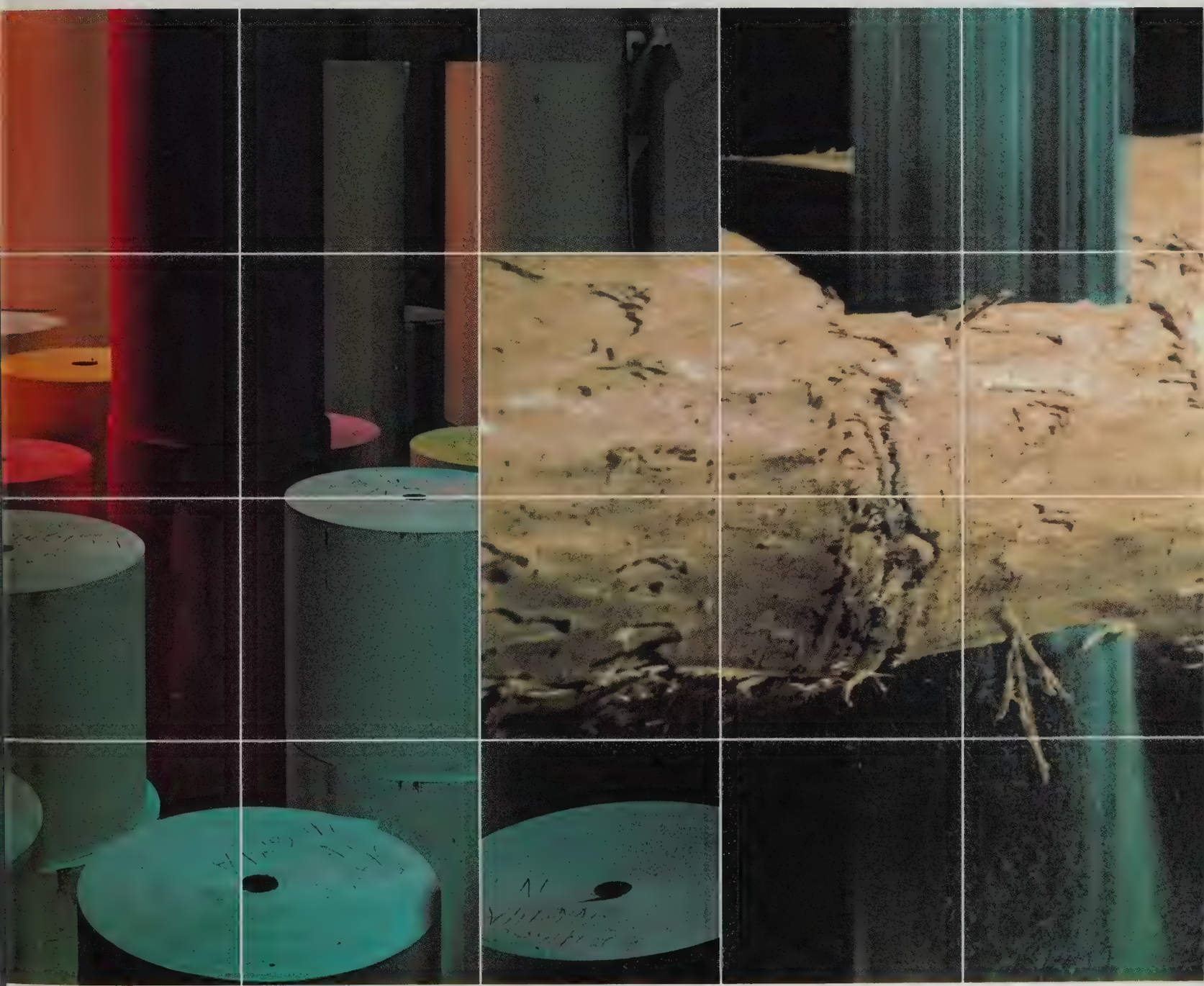
Through the combined operations of its Simonds, Heller and Illinois Gear Divisions, Wallace-Murray holds an unusually integrated position in the special metals and metal processing field, and a technological base which permits extensive application. Because of their durability, hardness and ability to hold an edge, metals make ideal cutting, or materials removing tools. This faculty is applicable to virtually all materials—wood, paper, plastics, rubber, other metals including the super-hard alloys out of which the space age is built—and is used in nearly all industrial



Custom-designed, precision-made Simonds slitter knives run tirelessly and smoothly at high speeds. Simonds sheeter and paper knives then tailor the cut rolls closer to the finished product.

Paper is perhaps the first material evoked by the idea of cutting, but Simonds has patented super-high speed and carbide-tipped blades that cut plastics, chrome steel alloys and other exotic metals.

processes, with no vulnerable dependence on any group. On the contrary, technical competence in materials moving can help create new markets. Commenting on the fast-growing use of plastics in durable goods, the U. S. Department of Commerce points out that "recently introduced new processing methods are making design freedom economically practical." You can't eat your cake until you learn to slice it. In becoming the world's largest manufacturer of industrial cutting tools, Wallace-Murray has developed skills which are also being used to produce .....



Band saw blades operating at tremendous speeds reduce a log to lumber in minutes. Simonds Abrasive complements the cutting line with a broad range of grinding wheels and abrasive grains.

specialty metal alloys which can meet exacting demands of hardness, magnetic properties, resistance and stability in various mechanical, chemical, electric or thermal environments. Some of these alloys travel to the moon; others work unnoticed in your house. The ability to produce them, on a commercially realistic basis, is a requirement of industrial progress. The year just past was the busiest in the 59-year history of the Simonds Steel Division. While meeting record demand, construction was virtually completed on a new electroslag remelting facility, one of the first

Special nickel-iron alloys provide constant calibration in the magnetic circuitry of electric meters despite temperature changes.

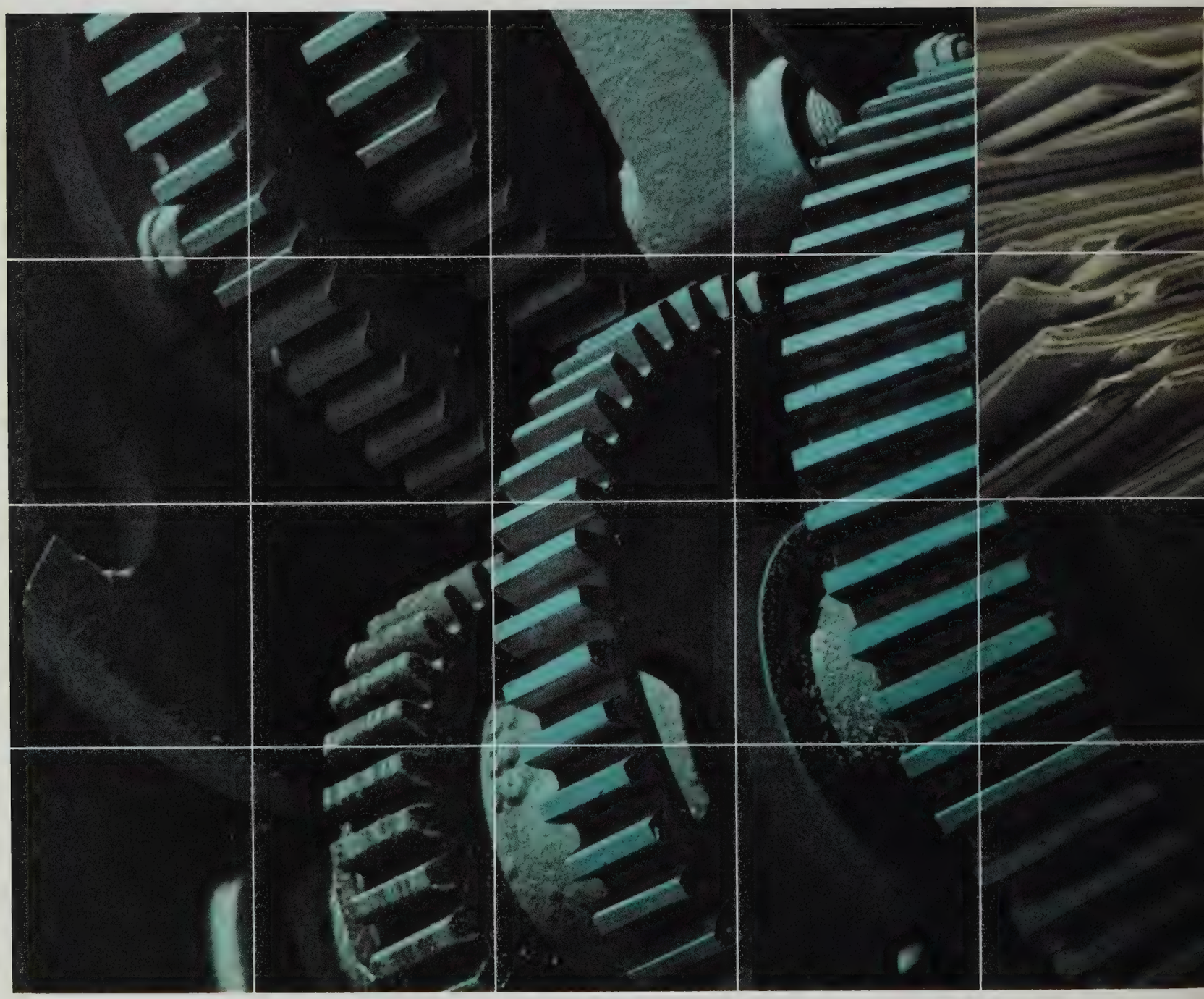
Behind the familiar, dependable thermostat is a unique series of controlled high and low thermal expansion alloys, one of a group of widely-used special metals produced by Wallace-Murray.

installed in the United States. It will permit the attainment of new tolerances in metal refinements and structure control. Other new equipment includes one of the world's most powerful electron beam welding units, which will make possible greater combinations of properties in a single product. Work also proceeded on a new heat-resisting alloy designed to replace materials now used inside internal combustion engines. Another aspect of Wallace-Murray's activity in metallurgical applications is the contribution it is making to improve one of man's earliest mechanical inventions, the gear.

he Heller Division manufactures complete line of hand tools for he most demanding industrial ses, as well as for the discern- ng home workshop enthusiast.

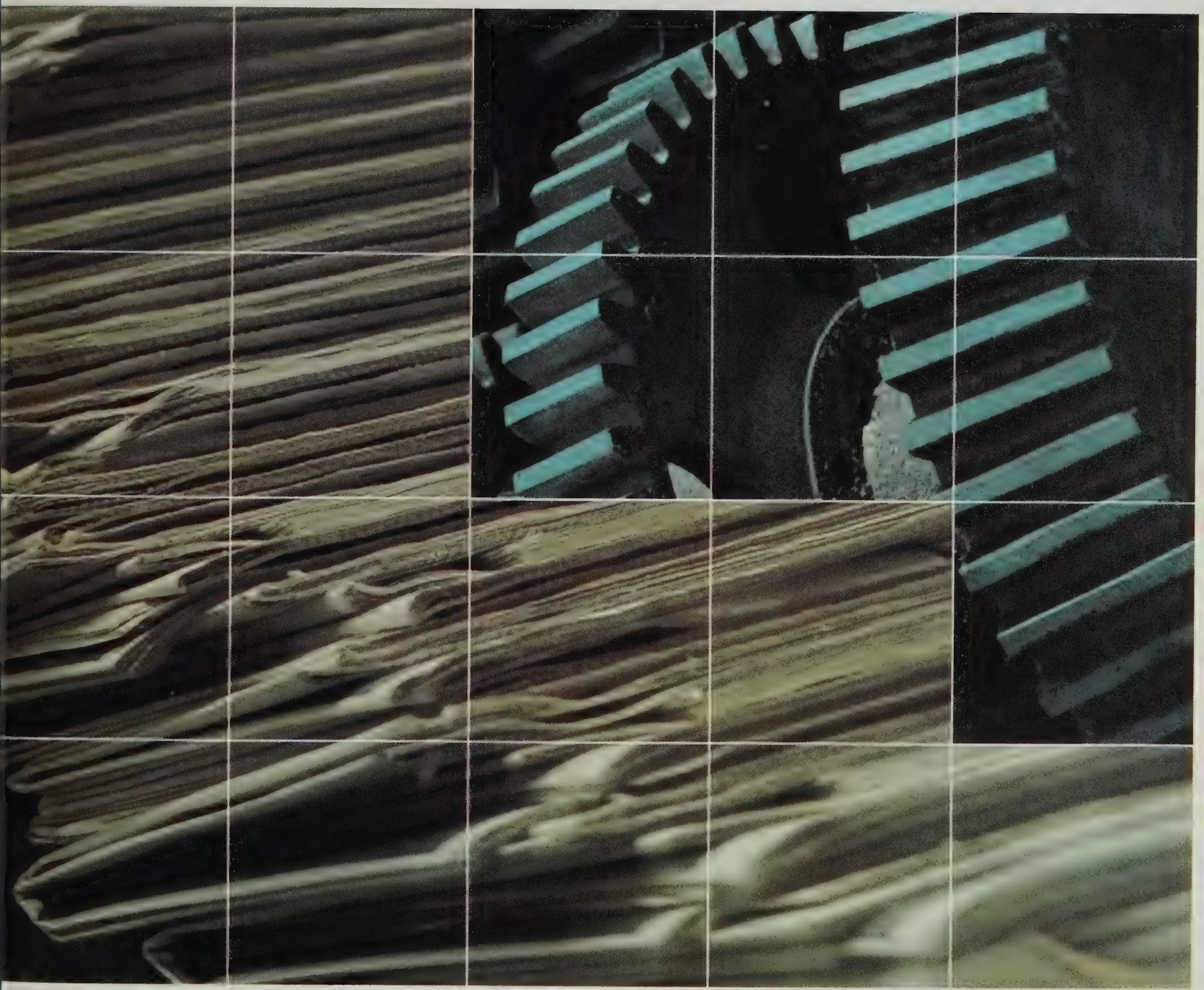
Carbide-tipped drill is used for its precision and durability. A similar drill was used on the circuit boards installed in the computer aboard the Apollo 12 capsule.

As devices for the transfer of mechanical energy, gears have no claim to glamor; a small child can grasp their principle. But they still determine the practical limit of applied technology. Power grinders once ran at 10,000 r.p.m. Now designs call for twice that speed, and gears to meet resulting demands of stress and load. Concern grows for miniaturization and noise abatement; to achieve both requires new refinements in gear geometry and dimensional stability. The Illinois Gear Division of Wallace-Murray is the largest United States manufacturer engaged exclusively



Modern, high-performance machines place increasing demands on gears and gear trains; maximum strength and durability with minimum space and noise; and rising standards of precision.

in the production of custom gears. In 1969, it launched an expansion program which includes the most modern, computerized processing, testing and control facilities in the industry. This will further expand a range of applications which already includes labeling machines, ore crushers, conveyors, steel and non-ferrous rolling mills, engraving and embossing presses, off-highway power mowers, Ferris wheels, office machines, equipment for use in explosive atmospheres and, among many other special uses for custom gears, the large turntables which speed .....



ew consumer products,
cluding the daily newspaper
nd their way into the users'
ands without at some point en-
aging an application of
echanical power transfer.

the Sunday newspaper to your door.

Review of Operations

Sales, net income and earnings per share on a fully diluted basis reached record levels in 1969.

Net Sales rose to $238,146,960 from $218,288,558 in 1968, an increase of over 9 percent. Net income amounted to $11,770,349, compared with $11,178,830 for 1968, an increase of over 5 percent.

Earnings per outstanding share for 1969 were $3.53, compared with $3.35 for 1968. On a fully diluted basis, assuming full conversion of the $1.70 Cumulative Convertible Preference Stock and the exercise of Common Stock Warrants, earnings for 1969 were $2.65 per share, an increase of nearly 6 percent over $2.51, the comparable figure for 1968.

Four new companies joined Wallace-Murray during 1969. The effect of these acquisitions was to put Wallace-Murray into two new fields and to expand its product lines in two present areas.

The Lawton Company, Inc. of St. Petersburg, Florida, is an important distributor of building components to mobile home manufacturers and operates a chain of outlets in the southeastern United States, one of the geographical centers of the industry. Its addition will substantially increase the tempo of Wallace-Murray's participation in this specialized and rapidly-expanding market.

Fayette Tubular Products, Inc. of Fayette, Ohio, is one of the largest independent manufacturers of fluid-carrying devices and hydraulic components for the refrigeration, air conditioning and automotive industries.

The Dry Manufacturing Company, of Winters, Texas, is a producer of steel and aluminum registers, grills and diffusers used in the temperature management systems of residential housing, mobile homes, apartments and commercial buildings.

The H. G. Wright Manufacturing Company of Hamilton, Ontario, manufactures gas vent systems, metal chimneys, furnace pipes and other building products sold throughout Canada.

Internal expansion continued in 1969 as well. Total capital expenditures exceeded $11 million.

The Eljer Division began work on its second expansion program in two years at the vitreous china plant in Tupelo, Mississippi. This latest addition will more than triple the size of the original plant. Another expansion program which will include a new tunnel kiln was initiated at Eljer's plant in Ford City, Pennsylvania.

In addition, Wallace-Murray purchased two plants in Springfield, Ohio, for the manufacture of fiberglass bathtub and shower installations. This marks Eljer's first penetration into this new market.

Another major expansion program that will more than double existing manufacturing facilities was announced late in the year by the Illinois Gear Division. One of the major objectives of that program is to enlarge and modernize heat treating operations.

The Schwitzer Division broke ground for a new manufacturing plant in Rolla, Missouri. This plant, scheduled to be completed in mid-1970, will handle the production of Schwitzer's fan blades and eventually a substantial proportion of its fan drives. The transfer of these lines from Schwitzer's main production facilities in Indianapolis, Indiana, will permit a major expansion of the Division's research and development operations and the realization of new efficiency in the production of turbochargers, superchargers, turboconveyors and pumps.

In January, 1970, Wallace-Murray announced the completion of its first overseas manufacturing plant. Located in Barnstaple, England, the plant will produce a broad line of Metalbestos gas vents and stainless steel chimneys.

In April, 1969, the Board of Directors elected Fred R. Raach, who had been Executive Vice President, to be President and Chief Executive Officer. John B. Balmer, who had held these positions, relinquished them in line with corporate policy under which senior officers are relieved of their executive duties and responsibilities upon the attainment of age 62. Mr. Balmer was elected Chairman of the Executive Committee, succeeding Charles H. Dyson, who was elected Chairman of the Finance Committee.

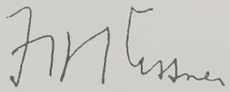
In other executive changes, Benjamin G. Bowden was elected Vice President—Research and Development. In this new position Mr. Bowden will coordinate the Divisional research and development functions and provide guidance in the vital area of new product development.

John D. Ames Jr. and Bruce Williams were elected Directors of the Wallace-Murray Corporation at the April Meeting. Mr. Ames is with Fidelity Management and Research Company in Boston. Mr. Williams is a Director of Jennison Associates Capital Corporation of New York.

In December, the Board of Directors accepted with regret the resignation of G. K. Simonds, Jr. as Group Vice-President and Director.

In August, 1969, the Board of Directors approved an increase in the quarterly dividend on the company's common stock from 20 cents to 25 cents per share. The increase in the dividend on the company's common stock was the third in a little over three years, and represents a 66⅔ percent increase since 1966.

On behalf of the Board of Directors, we wish to extend gratitude to our shareholders, customers and employees for their continued support and dedication.



F. H. Kissner
Chairman

F. R. Raach
President

Consolidated Balance Sheets
December 31, 1969 and 1968

Assets	1969	1968
Current Assets:		
Cash	$ 6,375,886	$ 8,171,150
Temporary cash investments, at cost, which approximates market	92,500	1,156,250
Accounts receivable, less allowances of $784,900 in 1969 and $731,500 in 1968 for doubtful accounts	29,317,373	26,259,874
Inventories, at the lower of cost (determined on the first-in, first-out basis) or market:		
Finished goods	17,067,236	15,811,218
Work in process	17,484,052	14,649,527
Raw materials and supplies	19,184,730	15,495,682
	53,736,018	45,956,427
Prepaid expenses	852,133	819,437
Total current assets	90,373,910	82,363,138
Plant and Equipment, at cost:		
Land	3,739,226	3,756,331
Buildings	33,479,318	31,217,499
Machinery and equipment	76,204,922	68,348,628
	113,423,466	103,322,458
Less—Accumulated depreciation	49,238,897	42,907,801
	64,184,569	60,414,657
Investments and Other Assets, at cost	5,130,807	5,391,424
Intangibles (Note 3)	7,913,860	7,902,987
	$167,603,146	$156,072,206

The accompanying notes to consolidated financial statements are an integral part of these balance sheets.

Liabilities and Stockholders' Equity	1969	1968
Current Liabilities:		
Notes payable to banks	$ 6,284,684	$ 603,400
Current portion of long-term debt	309,218	2,369,542
Accounts payable	8,778,905	8,550,818
Accrued payrolls and employee benefits	8,256,705	7,745,552
Accrued Federal and foreign income taxes	2,690,952	3,423,589
Other accrued liabilities	4,623,579	3,977,788
Total current liabilities	30,944,043	26,670,689
Deferred Federal Income Taxes	1,448,850	1,218,765
Long-term Debt (Note 4)	54,318,073	54,660,465
Stockholders' Equity (Notes 1, 5, 6 and 7):		
$1.10 Cumulative Preferred Stock, no par value, authorized 490, 772 shares; held in treasury, 41,331 shares at December 31, 1969 and 40,159 shares at December 31, 1968; outstanding, 318,545 shares at December 31, 1969 and 328,945 shares at December 31, 1968, stated at $20.00 per share	6,370,900	6,578,900
$1.70 Cumulative Convertible Preference Stock, no par value, authorized 1,435,871 shares; held in treasury, 3,900 shares at December 31, 1969 and at December 31, 1968; outstanding, 871,824 shares at December 31, 1969 and 879,050 shares at December 31, 1968, stated at $7.50 per share	6,538,680	6,592,875
Additional Preferred Stock, no par value, authorized 1,000,000 shares	—	—
Common Stock, $3.75 par value, authorized 12,000,000 shares; held in treasury, 369,706 shares at December 31, 1969 and 376,768 shares at December 31, 1968; outstanding, 2,792,463 shares at December 31, 1969 and 2,773,120 shares at December 31, 1968	10,471,736	10,399,200
Capital surplus	1,920,218	1,784,925
Retained earnings (Note 4)	55,590,646	48,166,387
Total stockholders' equity	80,892,180	73,522,287
	$167,603,146	$156,072,206

Consolidated Statements of Income
Consolidated Statements of Retained Earnings
For the Years Ended December 31, 1969 and 1968

Statements of Income	1969	1968
Net Sales	$238,146,960	$218,288,558
Cost of sales	177,818,093	162,722,376
Gross Profit	60,328,867	55,566,182
Selling, general and administrative expenses	32,681,807	30,162,428
Income from Operations	27,647,060	25,403,754
Interest expense	4,139,466	3,853,684
Other (income), net	(562,755)	(1,167,220)
	3,576,711	2,686,464
Income before Federal and Foreign Income Taxes	24,070,349	22,717,290
Federal and foreign income taxes	12,300,000	11,538,460
Net Income	$ 11,770,349	$ 11,178,830
Earnings per common share—assuming no dilution (Note 2)	$3.53	$3.35
Fully diluted earnings per share (Note 2)	$2.65	$2.51

Retained Earnings	1969	1968
Balance, beginning of year:		
As previously reported	$46,611,562	$40,130,770
Retained earnings of certain pooled businesses for which the financial statements have been retroactively restated, less amount transferred to Common Stock in the pooling (Note 1)	1,554,825	811,431
As restated	48,166,387	40,942,201
Retained earnings of certain businesses pooled during the period without retroactive restatement (Note 1)	92,696	172,971
Net income	11,770,349	11,178,830
	60,029,432	52,294,002
Cash dividends—		
$1.10 Preferred Stock	356,781	366,844
$1.70 Preference Stock	1,487,060	1,499,642
Common Stock ($.90 per share in 1969 and $.75 per share in 1968)	2,368,329	1,779,884
Dividends paid by a pooled business prior to pooling of interests	—	30,000
Cost in excess of par value of 6,000 shares of Common Stock acquired for the treasury	132,509	—
Cost of Common Stock warrants (1,678 warrants in 1969 and 7,043 warrants in 1968) acquired for cancellation	94,107	451,245
	4,438,786	4,127,615
Balance, end of year (Note 4)	$55,590,646	$48,166,387

The accompanying notes to consolidated financial statements are an integral part of these statements.

Consolidated Statements of Capital Surplus
Consolidated Statements of Source and Application of Funds

For the Years Ended December 31, 1969 and 1968

Capital Surplus	1969	1968
Balance, beginning of year	$ 1,784,925	$ 1,310,680
Proceeds in excess of par or stated value of shares issued on exercise of warrants and options to purchase Common Stock (6,644 shares in 1969 and 43,930 shares in 1968) and options to purchase $1.70 Cumulative Convertible Preference Stock (350 shares in 1968) (Note 7)	64,540	302,485
Other	70,753	171,760
Balance, end of year	$ 1,920,218	$ 1,784,925

Source and Application of Funds	1969	1968
Source of Funds:		
Net income	$ 11,770,349	$ 11,178,830
Non-cash charges—depreciation*	6,675,751	6,350,687
Total from operations	18,446,100	17,529,517
Sale of investments	2,960,975	1,773,410
Sale of properties	718,436	2,145,325
Issuance of Common Stock, $1.70 Preference Stock and $1.10 Preferred Stock	113,523	832,109
Other, net	258,083	(25,263)
	22,497,117	22,255,098
Application of Funds:		
Additions to properties	11,164,099	8,811,563
Dividends paid	4,212,170	3,676,370
Purchase of investments	2,646,191	5,272,817
Purchase of treasury stock and Common Stock warrants	394,847	549,820
Decrease in long-term debt	342,392	2,760,377
	18,759,699	21,070,947
Increase in Working Capital	$ 3,737,418	$ 1,184,151

*Depreciation is determined principally on the straight-line method.

The accompanying notes to consolidated financial statements are an integral part of these statements.

Notes

1. Acquisitions and Principles of Consolidation: During 1969, 384,520 shares of common stock were exchanged for the net assets of the Lawton, Dorel, Fayette and Dry companies. These exchanges have been accounted for as poolings-of-interests and, accordingly, the accompanying financial statements include these companies for all periods.

In addition, 6,418 shares were exchanged for the net assets of another business during 1969. This exchange of shares for assets has been treated as a pooling-of-interests for accounting purposes. Prior year financial statements have not been restated to reflect this pooling retroactively as the effect thereon is immaterial.

2. Earnings Per Share: Earnings per common share—assuming no dilution were computed by dividing net income, after deducting all preferred and preference dividends, by the average number of common shares outstanding during the periods, including for all periods the shares issued or contingently issuable on pooling of interests transactions.

Fully diluted earnings per share were computed after deducting only $1.10 Cumulative Preferred dividends from net income and assuming that the $1.70 Cumulative Convertible Preference Stock was converted and the Common Stock warrants were exercised.

The exercise of outstanding stock options has not been reflected in the above computations as the effect thereon is not significant.

3. Intangibles: Intangibles, which represent the cost of investments in businesses acquired in excess of amounts assigned to tangible assets, are not being amortized. In the opinion of management, there has been no diminution in value.

4. Long-term Debt: Long-term debt at December 31, 1969 was as follows:

6½% senior notes, due 1971-1988	$40,000,000
6⅞% subordinated notes, due 1971-1988	12,000,000
6½% subordinated debentures, due 1971-1981	1,988,000
3%-7% mortgage notes, due 1971-1983	330,073
	$54,318,073

The terms of the loan agreements with regard to the 6½% senior notes and the 6⅞% subordinated notes contain restrictions on the payment of cash dividends on the various classes of capital stock and the acquisition thereof. As of December 31, 1969, $40,193,098 of consolidated retained earnings were restricted by the terms of these agreements. Other provisions of these agreements required the Company and subsidiaries to maintain working capital of not less than $46,170,362 at December 31, 1969, on which date working capital was $59,429,867.

Similar limitations, less restrictive than the foregoing, are contained in the Indenture with respect to the 6½% Subordinated Debentures and in the Company's Certificate of Incorporation.

5. Preferred and Preference Stock: In the payment of both dividends and any preferential liquidation, the $1.70 Cumulative Convertible Preference Stock will share ratably with the $1.10 Cumulative Preferred Stock. In the event of liquidation or dissolution, the $1.70 Preference Stock will also be entitled to share ratably with the Common Stock on a share-for-share basis in the assets after payment of all preferential distributions if the liquidation is voluntary (subject to right of redemption) or, if the liquidation is involuntary, to share ratably with the Common Stock up to a limit of $30.00 per share (in addition to a $7.50 per share preferential distribution). Had involuntary liquidation taken place as of December 31, 1969, and based upon the accompanying balance sheet as of that date, the holders of the $1.70 Cumulative Convertible Preference Stock would have been entitled to receive an amount of $22,712,000, which amount includes the $6,538,680 stated value of such stock. Each share of $1.70 Cumulative Convertible Preference Stock is convertible into 1.7 shares of Common Stock. Had all such shares been so converted as of December 31, 1969, their total equity based upon the accompanying balance sheet would have been $25,837,000. During 1969, 7,226 shares of $1.70 Cumulative Convertible Preference Stock were converted into 12,281 shares of Common Stock.

The $1.10 Preferred Stock is redeemable at prices (plus accrued dividends) declining from $20.72 per share on December 31, 1969 to $20.00 per share on July 2, 1979 and thereafter. In each year beginning with July 1, 1969, the Company is required to redeem 2.5% of the shares issued at June 30, 1969. This requirement was met during 1969 by the cancellation of 9,228 shares of treasury stock. The $1.70 Preference Stock is redeemable at $37.50 per share (plus accrued dividends) prior to October 1, 1970, but only as a whole in the event of voluntary dissolution or liquidation and as a whole or in part on and after October 1, 1970 at prices (plus accrued dividends) declining from $36.75 per share to $35.00 per share on October 1, 1975 and thereafter.

6. Common Stock: A total of 1,717,159 shares of Common Stock were reserved at December 31, 1969 for future issuance as follows:

Conversion of $1.70 Cumulative Convertible Preference Stock (each share convertible into 1.7 shares of Common), including 340 shares for conversion of the $1.70 Cumulative Convertible Preference Stock issuable upon exercise of Common Stock options	1,482,441
Exercise of Common Stock options	195,850
Exercise of Common Stock warrants	10,868
Issuance of additional shares to former stockholders of a pooled company contingent upon market price of the Common Stock in 1971	28,000
	1,717,159

. Stock Options: Following is a summary of changes during 1969 in outstanding options to purchase Common Stock:

	Shares Subject to Option	Option Price Per Share	Option Price Total
eginning	112,594	$12.22 to $40.50	$3,215,145
ranted	65,850	25.375 to 33.00	2,161,863
xercised	(6,644)	12.22 to 28.75	(89,455)
ancelled	(9,600)	28.75 to 40.50	(307,925)
nding	162,200	16.19 to 37.00	$4,979,628

ptions to purchase 98,450 shares were exercisable at December 31, 1969, nd the remaining outstanding options become exercisable during 1970. n addition, 33,650 shares of Common Stock were reserved as of ecember 31, 1969 for grant of options under Qualified Stock Option Plans or officers and other key employees. Options under these Plans are xercisable during the five-year period subsequent to date of grant, at narket prices on the dates such options are granted.

Certain of the outstanding options also entitle the holder thereof to receive one-twentieth of a share of $1.70 Cumulative Convertible Preference Stock with each share of Common Stock. In accordance with this provision 200 shares were reserved at December 31, 1969 for subsequent issuance. No shares of $1.70 Cumulative Convertible Preference Stock were issued during 1969.

8. Pensions: The Company and its subsidiaries have a number of pension plans covering substantially all of their employees. The total pension expense, which includes, as to certain of the plans, amortization of prior service cost over periods ranging from 11 to 40 years, was approximately $3,250,000 in 1969 and $3,300,000 in 1968. The Company's policy is to fund pension cost accrued. The actuarially computed value of vested benefits at December 31, 1969, with respect to certain of the plans, exceeded the total of the applicable pension funds by $2,275,000.

9. Pending Litigation: On October 6, 1966 the Government filed Sherman Act indictments against fifteen plumbing fixture manufacturers, including the Company. These Government actions were terminated as to the Company and eleven other concerns by the entry of *nolo contendere* pleas. The remaining three concerns were convicted in May, 1969 and their appeals are pending. Numerous civil actions seeking the recovery of treble damages with respect to the same matters have been commenced. Most of the complaints do not specify the amount of damages sought and the Company is continuing to defend them. Negotiations to settle substantially all of the actions have been commenced. One agreement, subject to a number of contingencies including court approval, has been entered into with a group of plaintiffs. It is not anticipated that all such contingencies will be resolved until sometime during 1971. In the opinion of management and counsel, these actions will not have a materially adverse effect on the Company's business, operations or financial position. No provision has been made in the financial statements in connection therewith.

uditor's Report

o the Stockholders and Board of Directors, Wallace-Murray Corporation:

Ve have examined the consolidated balance sheets of Wallace-Murray orporation (a Delaware Corporation) and subsidiaries as of December 1, 1969 and 1968, and the related statements of income, capital surplus, etained earnings and source and application of funds for the years then nded. Our examination was made in accordance with generally accepted uditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered ecessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of Wallace-Murray Corporation and subsidiaries as of December 31, 1969 and 1968, and the results of their operations and the source and application of funds for the years then ended, in conformity with generally accepted accounting principles consistently applied during the periods.

New York, N. Y., February 16, 1970. Arthur Andersen & Co.

Seven-Year Summary

	1969	1968
Operations		
Net Sales	$238,146,960	$218,288,558
Income Before Income Taxes	24,070,349	22,717,290
Federal and Foreign Income Taxes	12,300,000	11,538,460
Net Income	11,770,349	11,178,830
Depreciation	6,675,751	6,350,687
Cash Flow	18,446,100	17,529,517
Interest Expense	4,139,466	3,853,684
Financial Position		
Current Assets	$ 90,373,910	$ 82,363,138
Current Liabilities	30,944,043	26,670,689
Working Capital	59,429,867	55,692,449
Current Ratio	2.92	3.09
Long-Term Debt	54,318,073	54,660,465
Stockholders' Equity	80,892,180	73,522,287
Comparative Statistics		
Number of Common Stockholders	3,580	3,608
Number of Preferred Stockholders	3,021	3,099
Average Number of Common Shares Outstanding	2,813,229	2,783,158
Earnings Per Common Share—Assuming No Dilution	$3.53	$3.35
Average Number of Shares Outstanding, Assuming Full Dilution	4,313,047	4,313,644
Fully Diluted Earnings Per Share	$2.65	$2.51

All years have been restated to reflect companies acquired in poolings of interests transactions.

Fully Diluted earnings per share assumes full conversion of $1.70 Cumulative Convertible Preference Stock and exercise of Common Stock warrants.

Simonds Saw and Steel Company was acquired by purchase in late December, 1965. Accordingly, the above Summary includes the Simonds balance sheet data at year-end 1965 and operating results for subsequent years.

1967	1966	1965	1964	1963
$202,216,674	$202,806,028	$106,225,653	$ 79,904,999	$ 59,378,586
20,574,122	22,871,177	13,427,527	8,944,714	5,296,758
9,835,765	11,175,868	6,158,600	4,288,943	1,794,998
10,738,357	11,695,309	7,268,927	4,655,771	3,501,760
6,067,515	5,826,727	2,775,248	2,235,494	1,994,954
16,805,872	17,522,036	10,044,175	6,891,265	5,496,714
4,231,429	3,988,364	1,038,296	887,805	401,904
$ 81,296,588	$ 84,434,275	$ 76,789,640	$ 48,389,900	$ 48,402,139
26,788,290	24,294,222	24,526,568	12,619,080	6,330,120
54,508,298	60,140,053	52,263,072	35,770,820	42,072,019
3.03	3.48	3.13	3.83	7.65
57,420,842	64,127,033	64,376,059	17,452,096	6,481,014
65,737,535	63,460,918	53,957,939	49,566,436	55,930,313
3,759	4,097	3,687	3,610	3,667
3,258	3,405	3,191	700	—
2,754,926	2,747,456	2,677,774	2,512,188	2,735,530
$3.21	$3.57	$2.04	$1.26	$.74
4,355,347	4,472,864	4,511,228	4,253,222	4,441,029
$2.38	$2.54	$1.56	$1.09	$.79

Wallace-Murray Corporation

Executive Office, 299 Park Avenue, New York, NY 10017

Domestic Operating Divisions

Building Products

Eljer Plumbingware Division

Plants: Ford City and Scranton, Pennsylvania; Marysville, Salem and Springfield, Ohio; and Tupelo, Mississippi
Products: Plumbing sytems and fixtures including enameled cast iron and formed steel products, vitreous china, fiberglass, brass fittings and steel stampings

Lawton Division

Distributing branches: St. Petersburg, Florida; Americus, Georgia; and Tupelo, Mississippi
Products: Plumbing supplies and building components for the mobile home industry

William Wallace Division

Plants: Belmont, California and Logan, Ohio
Products: Gas vent systems, chimneys and sheet metal products

Dry Division

Plant: Winters, Texas
Products: Metal registers, grills and diffusers for heating and air-conditioning

Power Components

Schwitzer Division

Plants: Indianapolis and Elwood, Indiana; Rolla, Missouri; and Stratford, Ontario
Products: Automotive and Diesel engine components including turbo-chargers, cooling fans, vibration dampers and fan drives

Fayette Tubular Products Division

Plant: Fayette, Ohio
Products: Fluid power devices for automotive air-conditioning and hydraulic components for motor vehicles

Cutting Tools

Simonds Saw Division

Plant: Fitchburg, Massachusetts
Products: Circular, band and hack saws; files; machine knives; circular cutters and steel specialties

Simonds Abrasive Division

Plants: Philadelphia, Pennsylvania; Salem, Illinois; and El Monte, California
Products: Grinding wheels and abrasive grains

Atrax Division

Plants: Newington, Connecticut and Claremont, New Hampshire
Products: Precision solid carbide tools and burs

Heller Tool Division

Plant: Newcomerstown, Ohio
Products: Files, hammers and special tools

Custom Metals

Illinois Gear Division

Plant: Chicago, Illinois
Products: Metallic and non-metallic custom-made industrial gears

Simonds Steel Division

Plant: Lockport, New York
Products: Custom-made high quality alloy, tool and specialty steels

Canadian Operations

Simonds Canada Saw Division

Plants: Granby and Arvida, Quebec; Brockville, Ontario; Vancouver, B.C.
Products: Saws, machine knives, abrasive and diamond wheels and abrasive crude

Selkirk-Metalbestos Division

Plants: Brockville and Hamilton, Ontario; Montreal, Quebec; and Barnstaple, England
Products: Gas vent systems, industrial chimneys and fireplaces

Directors

John D. Ames, Jr.

John B. Balmer*

Charles H. Dyson*

Franklin H. Kissner*

James A. McLean

Sylvester W. Muldowny

Robert E. Palmer

Fred R. Raach*

Howard V. Scott

Bruce Williams

James O. Wright

*Members of Executive Committee

Officers

Franklin H. Kissner, Chairman of the Board

Fred R. Raach, President and Chief Executive Officer

John B. Balmer, Chairman of the Executive Committee

Charles H. Dyson, Chairman of the Finance Committee

Charles V. Myers, Group Vice President

Benjamin G. Bowden, Vice President—Research and Development

John H. Long, Jr., Vice President—Industrial Relations

Robert J. Niehaus, Vice President—Corporate Development

Richard D. Castle, Treasurer and Controller

Arthur J. Andersen, General Counsel and Corporate Secretary

Transfer Agents

Morgan Guaranty Trust Company of New York
Common Stock

First National City Bank—
$1.70 Cumulative Convertible
Preference Stock and Warrants

The Chase Manhattan Bank, N.A.—
$1.10 Cumulative Preferred Stock

Registrars

Bankers Trust Company—
$1.70 Cumulative Convertible
Preference Stock

Manufacturers Hanover Trust Company—
Common Stock

Auditors

Arthur Andersen & Co.

Design: Arnold Saks, Inc.
Text: Mark Strage
Photography: Cover, Jay Maisel;
Pages 14, 15, Gene Laurents;
all other photos, Elliott Erwitt, Magnum

Wallace-Murray Corporation 299 Park Avenue New York, NY 10017